

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Siyancuma Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Siyancuma Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Siyancuma Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to the statement of financial performance in the financial statements, which indicates that the municipality incurred a net loss of R27 701 870 during the year ended 30 June 2018. This matter, along with other matters as set forth in note 54, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material losses impairments – trade debtors

10. As disclosed in note 29 to the financial statements, material losses of R30 896 973 was incurred as a result of a write-off of irrecoverable trade debtors.

Material losses – electricity

11. As disclosed in note 44.4 to the financial statements, material electricity losses stated as 6 476 788Kwh (2016-17: 8 671 585Kwh) was incurred which represents 21.30% (2016-17: 28.04%) of total electricity purchased.

Underspending of conditional grants

12. As disclosed in note 22.9 to the financial statements, the municipality materially underspent on conditional grants by R16 822 076. The underspending is as a result of infrastructure projects not being completed within planned completion dates.

Other matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the financial statements, the accounting officer is responsible for assessing the Siyancuma Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

20. I was unable to obtain sufficient appropriate audit evidence for the Development priority 1 – Basic Service Delivery and Infrastructure Development as the annual performance report was presented without accurate and complete underlying performance records. I was therefore unable to audit the usefulness and reliability of the reported performance information. This was due to limitations placed on the scope of our work. I was unable to audit the reported performance information for this selected development priority by alternative means.

Other matter

21. I draw attention to the matter below.

Achievement of planned targets

22. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 20 of this report.

Report on the audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements and annual reports

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
26. The annual performance report for the year under review did not include the performance of the municipality and a comparison of the performance with set targets and comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(b) and (c) of the Municipal Systems Act.
27. The 2016-17 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.

Expenditure management

28. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
29. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R37 066 582, as disclosed in note 44.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12 578 090, as disclosed in note 44.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred from late payments to creditors.
31. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R6 982 029 as disclosed in note 44.3, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

Revenue management

32. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
33. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

34. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

35. Capital assets were disposed of without the municipal council having in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services as required by section, as required by section 14(2)(a) of the MFMA.

Strategic planning and performance management

36. A performance management system was not established as required by section 38(a) of the Municipal Systems Act and municipal planning and performance management regulation 8.

Procurement and contract management

37. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by supply chain management (SCM) regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
38. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
39. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
40. The preference point system was not applied in the some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.
41. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. Similar non-compliance was also reported in the prior year.
42. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5). Similar non-compliance was also reported in the prior year.
43. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
44. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
45. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

46. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Human resource management

47. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act.

Other information

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
49. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
50. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

52. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
53. The municipality did not have sufficient monitoring controls, exercise oversight responsibility and did not implement effective human resource management to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action. This is evident by material misstatement identified on financial statements, findings on performance information and non-compliance with relevant laws and regulations that were identified during the audit process.

- 54. Action plans to address prior year audit findings were not monitored by the leadership of the municipality resulting in the reoccurrence of material findings on performance information and compliance as well as supporting evidence not submitted for audit purposes.
- 55. Management did not establish an information technology governance framework that supported and enabled the business, delivered value and improved performance.
- 56. Management did not prepare regular, accurate and complete performance reports that were supported and evidenced by reliable information.
- 57. Management did not design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
- 58. Leadership's slow response to internal audit's recommendations or reports thereby impacting their effectiveness as an assurance provider to the leadership of the municipality.
- 59. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation.
- 60. The audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations

Auditor-General

Kimberley

28 November 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Siyancuma Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.